



GSM-102 and GSM-103 Compliance Review Guide

August 1998

This guide provides instructions for performing compliance reviews of U.S. exporters participating in the Commodity Credit Corporation (CCC) Export Credit Guarantee (GSM 102) and Intermediate Export Credit Guarantee (GSM 103) programs. It provides direction for determining whether the exporter:

1. Provided valid information on its GSM 102 or GSM 103 application.
2. Executed a valid sales contract prior to the application.
3. Obtained a irrevocable letter of credit.
4. Did not export foreign origin commodities or products under the guarantee,
and
5. Actually shipped the guaranteed commodity or product.

A documentation checklist covering the segments contained in this guide is provided for the reviewer as a control worksheet. Reviewers are encouraged to use their professional judgment to tailor the guide to meet specific conditions at the review site.

For specific information about the GSM-102 and GSM-103 programs visit Export Credit's homepage at <http://www.fas.usda.gov/exprograms.html>.

PROGRAM BACKGROUND

CCC administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.

Two programs underwrite credit extended by the private banking sector in the U.S. to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The GSM 102 covers credit terms up to 3 years. The GSM 103 covers longer credit terms up to 10 years.

Under these programs, the CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and an a portion of interest at an adjustable rate is covered.

Program announcements issued by CCC provide information on specific country and commodity allocations, length of credit period, and other program information and requirements.

The CCC must qualify exports for participation before accepting guarantee applications. An exporter must have a business office in the U.S. and must not be debarred or suspended from participating in any U.S. government program. Financial institutions must also meet established criteria and be approved by CCC.

The exporter negotiates the terms of the export credit sale with the importer.

Once a firm sale exists, the qualified U.S. exporter pays a fee calculated on the dollar amount guaranteed, based on a schedule of rates applicable to different lengths of credit periods.

The CCC-approved foreign bank issues a dollar-denominated, irrevocable letter of credit in favor of the U.S. exporter. The U.S. exporter may be paid as exports occur by assigning to the U.S. financial institution the right to proceeds that may become payable under the guarantee, and later presenting required documents to that financial institution.

The U.S. exporter must obtain documentation to show that the commodity arrived in the eligible country.

General Review Instructions

A. Preliminary Review Work

1. Read and be familiar with the GSM 102 and GSM 103 regulations (7 CFR 1493, Subparts A and B, respectively) and any other CCC policies and directives relating to the programs.
2. Randomly select at least 5 percent of the exporter's total GSM transactions from the list provided by CCC. Select guarantees (a) for commodities with potential for foreign origin content such as food additives, or for commodities know to be imported from Canada or Mexico, (b) involving amended applications reflecting changes in the contract sales price, quantity, letter of credit and/or delivery period, (c) with potential for diversion through such ports as Hong Kong, Singapore, the Middle East, Africa, or the former Soviet Union.
3. Obtain the guarantee file(s) from the CCC Operations Division (CCCOD). Copy the guarantee and application and any other pertinent information. Through discussion with the CCCOD determine whether any problems or special conditions exist.
4. Schedule and confirm review dates at least 4 weeks in advance. Request copies of bills of lading and entry certificates for all ocean going shipments.

B. Entrance and Exit Conference.

1. Meet with the Exporter at the start of the review to discuss the purpose and scope of the review, and any potential problem areas.

2. Meet with the exporter at the end of the review to discuss all findings and recommendations.

C. Documentation Checklist.

1. Complete a checklist (attached) for each transactions reviewed.
2. Cross-reference the checklist to the supporting workpapers.

D. Review Report.

1. Provide CCCOD a draft report detailing findings. If CCCOD concurs with the findings, prepare and issue a final report for CCCOD administrative action.

Exporter Review Instructions

A. Name and Address.

1. Verify that the exporter operates as a U.S. entity. The exporter must be headquartered or have an agent in the U.S. to facilitate the service of legal process by the U.S. Government.

B. Evidence of Sale.

1. Verify that the exporter had a contractual obligation with the importer with a firm contract price or an agreed to mechanism to establish the price. The evidence of sale may include something other than a formal written contract. It may include an offer and acceptance via telex, fax, or telephone. Consider the information presented in light of the normal trading practices for the commodity.

In any event, the evidence must include mutual information from the exporter and importer.

C. Date of Sale.

1. Determine that the sale occurred on or before the date of the application. The exporter is ineligible for the credit guarantee if the sale is dated after the application date. Watch for amendments to the sale evidence or application which might indicate an invalid sale date. Validate any changes to the sales price, quantity, foreign bank, or delivery date.

D. Guaranteed Value.

1. Verify the guaranteed value from the evidence of sale. The value must excluded any foreign content declared in the exporter's certification of origin statement.

E. Port Value.

1. Verify the port value from the evidence of sale, shipping documents, customs declarations and/or the exporter's inventory records.

F. Destination Country.

1. Verify the destination country from the evidence of sale, shipping documentation, and/or letter of credit.

G. Delivery Period.

1. Verify the delivery period from the evidence of sale, shipping documents, customs declarations, the exporter's inventory records, and/or supplier records.

H. Commodity.

1. Verify that the guaranteed commodity is the same as included in the evidence of sale, and on the shipping documents, customs declarations, the exporter's inventory records, and if applicable, supplier records.

Watch for differences in grades, types, styles, or in the case of blended or processed commodities, different blends or processes.

I. Quantity.

1. Verify the quantity from the evidence of sale, shipping documents, customs documents, the exporter's inventory records, and if applicable, supplier records.

J. Loading Tolerance.

1. Verify that the quantity exported does not exceed nor drop below the contracted quantity and that the guaranteed value is also within these tolerances.

K. Letter of Credit.

1. Verify that the foreign bank listed on the application issued an irrevocable letter(s) of credit for at least the amount of the port value for deferred payments in favor of the exporter.

Look for information that confirms that the specific sale is supported by the letter of credit. The information could include a date corresponding to the contract date, terms relative to the contract with regard to amount, commodity description, quantity, date of shipment, and repayment terms.

L. Credit Terms.

1. Verify that the credit terms in the letter of credit used to support the application correspond to the terms of the payment guarantee.

Guarantees for the GSM-102 require credit terms of 3 years or less; guarantees for the GSM-103 require terms of more than 3 years but not more than 10 years.

M. Final Date to Export.

1. Verify that the actual or planned date of shipment corresponds to the application date amendments, and the letter of credit.

N. Commodity Origin.

1. Verify from the exporter's and/or supplier's records that the percentage of the port value of the commodity corresponds with the exporter's origin certification on their application.
2. Exporters are required to report any non-U.S. origin content and back this out from the port value reported on the application as guaranteed value is based in part on U.S. origin.
3. Obtain information which shows the source or origin of the commodity included in the guarantee. In situations where the exporter is not the producer (e.g., farmer, rancher, timberman) obtain information to support the exporter's origin certification, such as invoices and shipping documents for incoming shipments from original producers.
4. Watch for indications on the documentation which might support foreign sources of supply (e.g., shipping documents listing port locations as the origin of shipment, or suppliers known to be involved in importation of the commodity.)

Independent Verification of Exporter Information

If the authenticity or reliability of documentation reviewed at the exporter's office is suspect, obtain original documentation or certification from the appropriate party. This could include suppliers, banks, freight forwarders, broker/agents, and shippers.

If you have any comments or suggestions regarding the review guide or audit procedures, please address them to Jean-Louis Pajot at (202) 720-0517 or e-mail: pajot@fas.usda.gov.

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Last modified: Wednesday, November 25, 1998

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